

**REPORT OF THE AUDIT OF THE  
LEWIS COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2002**



**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE LEWIS COUNTY FISCAL COURT**

**For The Fiscal Year Ended June 30, 2002**

The Auditor of Public Accounts has completed the Lewis County Fiscal Court audit for the fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

#### **Financial Condition:**

Fund balances decreased by \$579,765 from the beginning of the year, resulting in a cash surplus of \$1,469,277 as of June 30, 2002.

#### **Debt Obligations:**

Total bonded debt principal as of June 30, 2002, was \$5,710,000. Future collections of \$10,047,178 are needed over the next 24 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$1,501,100 as of June 30, 2002. Future principal and interest payments of \$2,262,563 are needed to meet these obligations.

#### **Report Comments:**

- Lewis County Fiscal Court Did Not Budget For All Funds
- Lewis County Did Not Adopt An Administrative Code
- Lewis County Did Not Keep Timesheets On All Employees
- The Lewis County Jailer Does Not Maintain Jail Canteen Records Properly

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable George Plummer, Former Lewis County Judge/Executive  
Honorable Steven Applegate, Lewis County Judge/Executive  
Members of the Lewis County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Lewis County, Kentucky, as of June 30, 2002, and the related statement of cash receipts, cash disbursements, and changes in cash balances and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Lewis County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Lewis County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising primarily from cash transactions of Lewis County, Kentucky, as of June 30, 2002, and the revenues received and expenditures paid, and the cash flows of its enterprise fund for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
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Members of the Lewis County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated January 24, 2003, on our consideration of Lewis County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Lewis County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- Lewis County Fiscal Court Did Not Budget For All Funds
- Lewis County Did Not Adopt An Administrative Code
- Lewis County Did Not Keep Timesheets On All Employees
- The Lewis County Jailer Does Not Maintain Jail Canteen Records Properly

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
January 24, 2003



LEWIS COUNTY OFFICIALS

Fiscal Year Ended June 30, 2002

**Fiscal Court Members:**

George Plummer

Milt Stanfield

Dwight Rouse

Tim Underwood

County Judge/Executive

Magistrate

Magistrate

Magistrate

**Other Elected Officials:**

Clayton G. Lykins, Jr.

Eva Jordan

Shirley A. Hinton

Kathy Hardy

William Lewis

Betty Ripato

James Estepp

County Attorney

Jailer

County Clerk

Circuit Court Clerk

Sheriff

Property Valuation Administrator

Coroner

**Appointed Personnel:**

Kathy Dillow

County Treasurer



STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

LEWIS COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	<u>\$ 688,316</u>	<u>\$ 6,369</u>	<u>\$ 774,047</u>
Total Assets	<u>\$ 688,316</u>	<u>\$ 6,369</u>	<u>\$ 774,047</u>
<u>Other Resources</u>			
Amounts to Be Provided in Future Years for:			
Capital Leases -			
Tollesboro Industrial Park (Note 4A)	\$ 91,100	\$	\$
Lewis County Detention Center (Note 4B)	1,410,000		
Bond Payment -			
Public Properties Corporation Justice Center (Note 4C)			<u>4,935,953</u>
Total Other Resources	<u>\$ 1,501,100</u>	<u>\$</u>	<u>\$ 4,935,953</u>
Total Assets and Other Resources	<u>\$ 2,189,416</u>	<u>\$ 6,369</u>	<u>\$ 5,710,000</u>

LEWIS COUNTY  
 STATEMENT OF ASSETS, LIABILITIES,  
 AND EQUITY ARISING FROM CASH TRANSACTIONS  
 June 30, 2002  
 (Continued)

Proprietary Fund Type	Totals (Memorandum Only) Reporting Entity
<u>Enterprise</u>	
\$ 709	\$ 1,469,441
<u>\$ 709</u>	<u>\$ 1,469,441</u>
\$	\$ 91,100
	1,410,000
<u></u>	<u>4,935,953</u>
<u>\$</u>	<u>\$ 6,437,053</u>
<u>\$ 709</u>	<u>\$ 7,906,494</u>

The accompanying notes are an integral part of the financial statements.

LEWIS COUNTY  
 STATEMENT OF ASSETS, LIABILITIES,  
 AND EQUITY ARISING FROM CASH TRANSACTIONS  
 June 30, 2002  
 (Continued)

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Lease			
Tollesboro Industrial Park (Note 4A)	\$ 91,100	\$	\$
Lewis County Detention Center (Note 4B)	1,410,000		
Bonds:			
Public Properties Corporation Justice Center (Note 4C)			5,710,000
Payroll Revolving Account	<u>164</u>		
Total Liabilities	\$ 1,501,264	\$	\$ 5,710,000
<u>Equity</u>			
Fund Balances:			
Restricted	\$	\$ 6,369	\$
Unrestricted	<u>688,152</u>		
Total Equity	<u>\$ 688,152</u>	<u>\$ 6,369</u>	<u>\$</u>
Total Liabilities and Equity	<u>\$ 2,189,416</u>	<u>\$ 6,369</u>	<u>\$ 5,710,000</u>

The accompanying notes are an integral part of the financial statements.

LEWIS COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2002  
(Continued)

Proprietary Fund Type	Totals (Memorandum Only) Reporting Entity
<u>Enterprise</u>	
\$	\$ 91,100
	1,410,000
	5,710,000
	<u>164</u>
\$	\$ 7,211,264
\$	\$ 6,369
<u>709</u>	<u>688,861</u>
\$	\$ 695,230
<u>709</u>	<u>695,230</u>
<u>\$</u>	<u>\$ 7,906,494</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

LEWIS COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 3,978,427	\$ 1,257,901	\$ 1,354,994	\$ 430,281
Other Financing Sources:				
Receipts - Jail Canteen	52,274			
Transfers In	203,285	43,285		160,000
Total Cash Receipts	<u>\$ 4,233,986</u>	<u>\$ 1,301,186</u>	<u>\$ 1,354,994</u>	<u>\$ 590,281</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,988,179	\$ 1,054,978	\$ 1,330,708	\$ 582,778
Other Financing Uses:				
Expenditures - Jail Canteen	54,944			
Schedule of Public Properties				
Corporation Fund Expenditures	477,665			
Schedule of Unbudgeted Expenditures	563,558			
Transfers Out	203,285	160,000		
Bonds:				
Principal Paid	110,000			
Interest Paid	335,020			
Capital Lease Obligations:				
Principal Paid	81,100	81,100		
Total Cash Disbursements	<u>\$ 4,813,751</u>	<u>\$ 1,296,078</u>	<u>\$ 1,330,708</u>	<u>\$ 582,778</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (579,765)	\$ 5,108	\$ 24,286	\$ 7,503
Cash Balance - July 1, 2001	<u>2,049,042</u>	<u>448,133</u>	<u>188,556</u>	<u>14,566</u>
Cash Balance - June 30, 2002	<u>\$ 1,469,277</u>	<u>\$ 453,241</u>	<u>\$ 212,842</u>	<u>\$ 22,069</u>

The accompanying notes are an integral part of the financial statement.

LEWIS COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
For The Fiscal Year Ended June 30, 2002  
(Continued)

Special Revenue Fund Type		Capital Projects Fund Type		Debt Service Fund Type	Enterprise Fund Type
FEMA Buyout Fund	Community Center Savings Fund	Community Development Block Grant Fund	Concord Water Fund	Public Properties Corporation Fund	Jail Canteen Fund
\$ 234,008	\$ 39	\$ 67,760	\$ 350,000	\$ 283,444	\$
					52,274
<u>\$ 234,008</u>	<u>\$ 39</u>	<u>\$ 67,760</u>	<u>\$ 350,000</u>	<u>\$ 283,444</u>	<u>\$ 52,274</u>
\$	\$	\$ 19,715	\$	\$	\$
					54,944
213,558				477,665	
	3,489	39,796	350,000		
				110,000	
				335,020	
<u>\$ 213,558</u>	<u>\$ 3,489</u>	<u>\$ 59,511</u>	<u>\$ 350,000</u>	<u>\$ 922,685</u>	<u>\$ 54,944</u>
\$ 20,450	\$ (3,450)	\$ 8,249	\$	\$ (639,241)	\$ (2,670)
(14,081)	3,450	(8,249)		1,413,288	3,379
<u>\$ 6,369</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 774,047</u>	<u>\$ 709</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH  
Flows-Proprietary Fund Type



LEWIS COUNTY  
STATEMENT OF CASH  
FLows-PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Fund</u> <u>Jail Canteen</u>
Cash Flows From Operating Activities:	
Cash Received From Inmate Sales	\$ 52,274
Operating Disbursements	<u>(54,944)</u>
Net Cash Used By Operating Activities	\$ (2,670)
Cash and Cash Equivalents - Beginning	<u>3,379</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 709</u></u>

The accompanying notes are an integral part of the financial statement.

LEWIS COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Lewis County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Public Properties Corporation as part of the reporting entity.

The Public Properties Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

Additional - Lewis County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Lewis County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Lewis County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Lewis County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, and the Jail Fund.



LEWIS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Lewis County Special Revenue Fund Type includes the following county funds: FEMA Buyout Fund and the Community Center Savings Fund.

3) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Lewis County Capital Projects Fund Type includes the following county funds: Community Development Block Grant Fund and the Concord Water Fund.

4) Debt Service Fund Type

Debt Service Fund Type accounts for accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Fund. Debt Service is provided through annual lease payments from the Administrative Office of the Courts in the amount of the debt service requirements for the year.

5) Enterprise Fund Type

The enterprise fund type is used to report an activity for which a fee is charged to external users for goods or services. The Lewis County Enterprise Fund Type includes the jail canteen account, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

LEWIS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund. The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Lewis County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Fund (Debt Service Fund) because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. For the purpose of the statement of cash flows, the county considers all investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LEWIS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

LEWIS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 4. Long-Term Debt

A. Tollesboro Industrial Park

In February 1999, the county entered into a lease agreement with the Kentucky Area Development District for the Tollesboro Industrial Park for \$125,000 at 4.96% interest with a maturity date of May 20, 2009. The outstanding balance as of June 30, 2002, was \$91,100. Debt service requirements for fiscal year ended June 30, 2003, and thereafter are as follows:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 4,374	\$ 11,700
2004	3,787	12,300
2005	3,169	12,900
2006	2,522	13,500
2007	1,845	14,200
2008-2009	1,516	26,500
Totals	<u>\$ 17,213</u>	<u>\$ 91,100</u>

B. Lewis County Detention Center

In May 1998, the county entered into a lease agreement with the Kentucky Area Development District for the renovation of the County Detention Facility for \$1,550,000 at 5.23% average interest rate with a maturity date of November 20, 2018. The outstanding balance as of June 30, 2002, was \$1,410,000. Debt service requirements for fiscal years ended June 30, 2003, and thereafter are as follows:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 73,196	\$ 55,000
2004	70,599	55,000
2005	67,880	60,000
2006	64,990	60,000
2007	61,875	65,000
2008-2012	254,260	380,000
2013-2017	137,905	495,000
2018-2019	13,545	240,000
Totals	<u>\$ 744,250</u>	<u>\$ 1,410,000</u>

LEWIS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

C. Lewis County Public Properties Corporation

In February 2000, the Lewis County Public Properties Corporation issued \$5,820,000 in First Mortgage Revenue Bonds for the construction of the Lewis County Justice Center. On the same day the Lewis County Public Properties Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of obtaining office rental space for the AOC at the Justice Center.

Lewis County and the Public Properties Corporation are acting as agents for the AOC in order to plan, design, construct, manage, and maintain the Justice Center. The Public Properties Corporation and the county expect annual rentals for the use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the use allowance payment in order to meet the debt service for the bonds.

The use allowance payment commences with occupancy of the Justice Center by the AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until March 1, 2026, but the lease does not obligate the AOC to do so.

These bonds are scheduled to mature in March 2026; interest payments are due every six months starting September 2000, and principal payments are due annually beginning September 2001. At June 30, 2002, the principal balance outstanding on these bonds was \$5,710,000. Debt service requirements for fiscal year ended June 30, 2003, and thereafter are as follows:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 329,850	\$ 115,000
2004	324,330	120,000
2005	318,450	125,000
2006	312,200	130,000
2007	305,700	140,000
2008-2012	1,212,160	805,000
2013-2017	1,164,800	1,050,000
2018-2022	821,655	1,390,000
2023-2026	322,080	1,835,000
Totals	<u>\$ 5,111,225</u>	<u>\$ 5,710,000</u>

LEWIS COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 5. Lease-Purchase Agreements

The county has entered into the following lease-purchase agreements:

Liabilities of the General Fund Types are:

Description	Purchase Date	Maturity Date	Interest Rate	Outstanding Principal
General Fund:				
Black Oak Industries	1/18/2002	5/20/2006	4.40%	\$ 90,000
Road Fund:				
Road Equipment #4	8/11/2000	8/20/2005	5.01%	\$ 95,628

Note 6. Related Party Transactions

The county is currently depositing all funds into First Community Bank of Lewis County. The county judge/executive is currently a member of the board of directors of the First Community Bank. The county treasurer is also the operations officer of the same bank. These relationships between county officials and the depository bank could be considered conflicts of interest because the county does business with the bank.

COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE





LEWIS COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 888,360	\$ 1,257,901	\$ 369,541
Road and Bridge Fund	1,096,631	1,354,994	258,363
Jail Fund	568,156	430,281	(137,875)
<u>Special Revenue Fund Type</u>			
FEMA Buyout Fund		234,008	234,008
Community Center Savings Fund		39	39
<u>Capital Projects Fund Type</u>			
Community Development Block Grant Fund	585,000	67,760	(517,240)
Concord Water Fund		350,000	350,000
Totals	<u>\$ 3,138,147</u>	<u>\$ 3,694,983</u>	<u>\$ 556,836</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 3,138,147
Add: Budgeted Prior Year Surplus			<u>698,000</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 3,836,147</u>

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SCHEDULE OF OPERATING REVENUE



LEWIS COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

	GOVERNMENTAL FUND TYPES				
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Capital Projects Fund Type	Debt Service Fund Type
REVENUE:					
Taxes	\$ 924,695	\$ 924,695	\$	\$	\$
Excess Fees	32,818	32,818			
Licenses and Permits	7,919	7,919			
Intergovernmental Revenues	2,816,751	1,930,290	234,008	417,760	234,693
Charges for Services	30,551	30,551			
Miscellaneous Revenues	99,161	99,161			
Interest Earned	66,532	17,742	39		48,751
Total Operating Revenue	<u>\$ 3,978,427</u>	<u>\$3,043,176</u>	<u>\$ 234,047</u>	<u>\$ 417,760</u>	<u>\$ 283,444</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES





LEWIS COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 483,508	\$ 456,307	\$ 27,201
Protection to Persons and Property	587,735	569,299	18,436
General Health and Sanitation	130,140	177,240	(47,100)
Social Services	13,000	6,775	6,225
Recreation and Culture	6,500	3,964	2,536
Roads	1,126,400	1,142,238	(15,838)
Debt Service	246,555	165,040	81,515
Capital Projects	254,000	75,428	178,572
Administration	403,309	372,173	31,136
Total Operating Budget - General Fund Type	\$ 3,251,147	\$ 2,968,464	\$ 282,683
Other Financing Uses:			
Capital Lease Agreement- Principal on Lease		81,100	(81,100)
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 3,251,147</u>	<u>\$ 3,049,564</u>	<u>\$ 201,583</u>
Expenditure Categories	CAPITAL PROJECTS FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
TOTAL BUDGET - CAPITAL PROJECTS FUND TYPE	<u>\$ 585,000</u>	<u>\$ 19,715</u>	<u>\$ 565,285</u>

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SCHEDULE OF UNBUDGETED EXPENDITURES



LEWIS COUNTY  
SCHEDULE OF UNBUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

<u>Expenditure Items</u>	<u>FEMA Buyout Fund</u>	<u>Concord Water Fund</u>
Protection to Persons and Property		
Land Purchases	\$ 213,558	\$
Capital Projects		
Water Line Extension		350,000
Totals	<u>\$ 213,558</u>	<u>\$ 350,000</u>

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SCHEDULE OF PUBLIC PROPERTIES CORPORATION  
FUND EXPENDITURES





LEWIS COUNTY  
SCHEDULE OF PUBLIC PROPERTIES CORPORATION  
FUND EXPENDITURES

For The Fiscal Year Ended June 30, 2002

<u>Expenditure Items</u>	<u>Public Properties Corporation Fund</u>
Construction Costs	\$ 477,165
Trustee Fees	<u>500</u>
Total	<u><u>\$ 477,665</u></u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable George Plummer, Former Lewis County Judge/Executive  
Honorable Steven Applegate, Lewis County Judge/Executive  
Members of the Lewis County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Lewis County, Kentucky, as of and for the fiscal year ended June 30, 2002, and have issued our report thereon dated January 24, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Lewis County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- Lewis County Fiscal Court Did Not Budget For All Funds
- Lewis County Did Not Adopt An Administrative Code
- Lewis County Did Not Keep Timesheets On All Employees
- The Lewis County Jailer Does Not Maintain Jail Canteen Records Properly

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lewis County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
January 24, 2003

## COMMENTS AND RECOMMENDATIONS





LEWIS COUNTY  
COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2002

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

1) Lewis County Fiscal Court Did Not Budget For All Funds

Lewis County Fiscal Court did not budget the FEMA Buyout Fund and the Concord Water Fund. Expenditures of these funds totaled \$213,558 and \$350,000, respectively for this fiscal year. According to KRS 68.280, the fiscal court may make provision for the expenditure of unanticipated receipts in the original budget by preparing an amendment to the budget. Lewis County Fiscal Court should have obtained a budget amendment for all FEMA Buyout Fund and Concord Water Fund expenditures. We recommend that the fiscal court determine that budget capacity is available before approving claims to be paid and prepare budget amendments for unanticipated receipts and expenditures.

*County Treasurer Kathy Dillow's Response:*

*The unbudgeted funds are being corrected by preparing a budget amendment for the current fiscal year.*

*Former County Judge/Executive George Plummer's Response:*

*This was an oversight.*

2) Lewis County Did Not Adopt An Administrative Code

During the course of our audit, we determined that the County had not adopted an administrative code as required by KRS 68.005. The administrative code should include at least the following procedures and designations of responsibility for: a) general administration of the office of county judge/executive, county administrative agencies and public authorities; b) administration of county fiscal affairs, including budget formulation, receipt and disbursement of county funds and preparation of records required for the county audit, and filing of claims against the county; c) personnel administration, including description and classification of non-elected positions, selection, assignment, supervision, and discipline of employees, employee complaints and the county affirmative action program; d) county purchasing and award of contracts; and e) delivery of county services. We recommend that the county adopt an administrative code as required by KRS 68.005.

*County Treasurer Kathy Dillow's Response:*

*An administrative code has been prepared and will be presented at the February 2003 fiscal court meeting.*

*Former County Judge/Executive George Plummer's Response:*

*I am confident the Fiscal Court will do this in the near future.*

LEWIS COUNTY  
COMMENTS AND RECOMMENDATIONS  
For The Fiscal Year Ended June 30, 2002  
(Continued)

NONCOMPLIANCES (Continued)

3) Lewis County Did Not Keep Timesheets On All Employees

Lewis County did not keep timesheets on all employees. The treasurer and a custodian do not have timesheets on file. Timesheets should be kept on all employees except elected officials, even salaried employees. According to KRS. 337.320(1)(b), every employer shall keep a record of the hours worked each day and each week by each employee. We recommend that all employees except elected officials keep timesheets.

*County Treasurer Kathy Dillow's Response:*

*Time sheets, as of 1/1/03, are being kept on all county employees.*

*Former County Judge/Executive George Plummer's Response:*

*I am confident this will be done before the next audit.*

4) The Lewis County Jailer Does Not Maintain Jail Canteen Records Properly

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. The Lewis County Jailer failed to maintain adequate records and report to the county treasurer as required by KRS 441.135(2) for fiscal year ended June 30, 2002. We recommend that the Jailer maintain ledgers and comply with KRS 441.135 and Technical Bulletin mentioned above.

*County Treasurer Kathy Dillow's Response:*

*New procedures and reports were administered as of 1-1-03.*

*County Jailer Eva Jordan's Response:*

*As of 1-1-03, new deputy taking care of all bookwork and new locks put on.*

*Former County Judge/Executive George Plummer's Response:*

*A new jailer has been elected.*

PRIOR YEAR FINDINGS

Lewis County Fiscal Court Should Budget All Expenditures  
Lewis County Did Not Adopt An Administrative Code

